

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05  
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04  
SIL-01 L-03 H-01 PA-01 PRS-01 AGRE-00 FEA-00 OES-06  
/090 W

-----301557Z 033242/43

R 301419Z DEC 76  
FM AMEMBASSY CAIRO  
TO SECSTATE WASHDC 135

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E.O. 11652:GDS  
TAGS: ECON, EG  
SUBJECT: OVERVIEW OF EGYPTIAN ECONOMIC SETTING AND DEVELOPMENT PROSPE  
CTS

REF: CAIRO 17769

1. AT RISK OF BELABORING WASHINGTON AGENCIES WITH  
KNOWN FACTS, IT MAY BE WELL TO SET EGYPTIAN ECONOMY IN  
PERSPECTIVE AS NATION ENTERS WHAT COULD WELL PROVE TO  
BE MOST CRUCIAL YEAR SINCE OCTOBER WAR. A NUMBER OF  
IMPORTANT DECISION IN ECONOMIC FIELD, WHICH WILL  
IMPINGE ON POLITICAL PROCESS, FACE GOE (REFTEL). THIS  
MESSAGE SUMMARIES ECONOMIC WHEREWITHAL AND SETS SCENE  
FOR MEDIUM-TERM DEVELOPMENT PROSPECTS.

2. EGYPT'S LAND AREA COMPRISSES SOME 386,000 SQUARE  
MILES, INCLUDING OCCUPIED TERRITORIES, ROUGHLY  
COMPARABLE TO LAND SURFACE OF TEXAS AND NEVADA COMBINED.  
ONLY ABOUT 15,000 SQUARE MILES (LESS THAN SAN  
BERNARDINO COUNTRY, CALIFORNIA) OF THIS AREA IS  
INHABITED OTHER THAN BY SCATTERED BEDOUINS, HOWEVER,  
TOTAL CULTIVATED LAND IS SOMEWHAT LESS THAN 10,000  
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SQUARE MILES (SIZE OF NEW HAMPSHIRE), OR SOME  
THREE PERCENT OF TOTAL AREA, ALTHOUGH MULTIPLE CROPPING  
IN GENERALLY FERTILE NILE VALLEY AND DELTA RAISES  
EFFECTIVE ACREAGE AVAILABLE FOR PLANTING BY FACTOR  
OF NEARLY TWO.

3. APPROXIMATELY 40 MILLION SOULS RESIDE IN THIS AREA, OR AS MANY AS IN NEW YORK, NEW JERSEY AND PENNSYLVANIA COMBINED. POPULATION DENSITY IN HABITABLE AREAS IS AMONG HIGHEST IN WORLD: GREATER CAIRO ALONE HAS POPULATION APPROXIMATELY NINE MILLION, APPROXIMATELY SAME AS ENTIRE STATE OF FLORIDA, AND EGYPTIANS ARE INCREASING IN NUMBERS CURRENTLY BY ABOUT ONE MILLION PER YEAR. EVEN THOUGH MAN/ARABLE LAND RATIO IS HIGH, EGYPT'S PEOPLE ARE (OR COULD BE) SIGNIFICANT NATIONAL RESOURCE. EDUCATIONAL LEVELS ARE RELATIVELY HIGH, WITH 40-50 PERCENT LITERACY, THREE-OF-FOURTHS OF SCHOOL-AGE CHILDREN ENROLLED, 350,000 STUDENTS IN UNIVERSITIES AND HIGHER TECHNICAL SCHOOLS, AND MILITARY ENGAGED IN VOCATIONAL TRAINING. INDEED, REMITTANCES FROM WORKERS ABROAD -- SKILLED AND UNSKILLED MOSTLY IN ME COUNTRIES -- CONSTITUTE IMPORTANT SOURCE OF FX EARNINGS. DOMESTIC UNEMPLOYMENT AND UNDEREMPLOYMENT RATES ARE HIGH, HOWEVER, AND WAGES AND PRODUCTIVITY LOW. AVERAGE ANNUAL PAGE OF WAGE EARNER IN SALARIED WORK FORCE OF TEN MILLION IS ABOUT \$525.

4. OTHER NATIONAL RESOURCES ARE NOT PLENTIFUL. MINERAL WALTH IN FORM PRIMARILY OF PETROLEUM HAS SIGNIFICANT BEARING ON FUTURE AND STRATEGIC GEOGRAPHIC LOCATION HAS ECONOMIC AS WELL AS POLITICAL CONSEQUENCES (SEE BELOW). EGYPT REMAINS AGRICULTURE-BASED NATION DEPENDENT ON SOIL, HOWEVER, CLOSE TO ONE OF EVERY TWO WORKERS IS IN AGRICULTURE (COMPARED WITH FEWER THAN ONE IN 20 IN US); ALMOST ONE-THIRD OF TOTAL

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\$12 MBILLION GNP (LESS THAN THAT OF LUXEMBOURG) DERIVES FROM THAT SECTOR. DESPITE FACT THAT COUNTRY CANNOT FEED ITSELF AND THAT THERE IS A MOVE AWAY FROM FARMS, PRODUCTIVE LAND AND FAVORABLE CLIMATE, ALONG WITH AGRICULTURAL WORK FORCE, ARE MAINSTAYS OF ECONOMY. MORE THAN ONE-HALF OF EXPORT EARNINGS ARE FROM PRIMARY COMMODITIES; COTTON, SUGAR AND SEED CROPS ARE BASIS FOR ADDITIONAL FINISHED AND SEMI-FINISHED EXPORT PRODUCTS.

5. INDUSTRY, PETROLEUM AND MINING TOGETHER ACCOUNT AT PRESENT FOR PERHAPS 15 PERCENT OF WORK FORCE AND ONE-OF-FOURTH OF GNP. VALUE OF MINING PRODUCTS IS STATISTICALLY INSIGNIFICANT. INDUSTRIAL PRODUCTION, LARGELY IN PUBLIC SECTOR, CONSISTS OF RANGE OF ITEMS INCLUDING PHARMACEUTICALS, METALS AND CHEMICALS, BUT WITH SPINNING AND WEAVING AND FOOD PROCESSING BY FAR MOST IMPORTANT SEGMENTS. OF GREATER NEAR-

TERM SIGNIFICANCE ON DEVELOPMENT SCENE IS PETROLEUM SECTOR, NOW PRODUCING AT RATE OF 320,000 BBLS/DAY (LESS THAN FOUR PERCENT OF SAUDI ARABIA'S PRODUCTION AT THIS WRITING), EXPECTED TO RISE TO 400,000 BBLS IN 1977 AND PERHAPS TO AROUND 800,000 BBLS PER DAY IN 1980 (SOME TWO-FIFTHS OF LIBYA'S 1976 PRODUCTION RATE) IF DRILLING OPERATIONS CAN BE UNDERTAKEN IN EGYPTIAN GRANTED CONCESSION AREAS IN EASTERN GULF OF SUEZ. APPROXIMATELY 52 PERCENT OF PRODUCTION WILL ACCRUE TO EGYPT'S NET EXPORT ACCOUNT, BRINGING IN MORE THAN ONE BILLION DOLLARS PER YEAR BY 1980 IF -- AND THIS IS A BIG IF -- ALL GOES ACCORDING TO PLAN.

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6. UNIQUE LOCATIONAL ADVANTAGES AT CROSSROADS OF ME PERMIT SIGNIFICANT INVISIBLE EARNINGS FROM SUEZ CANAL AND WILL IN FUTURE BRING INCOME FROM SUMED PIPELINE. SUEZ FACILITY ACCOUNTS FOR UP TO HALF BILLION DOLLARS ANNUALLY IN REVENUE AND SUMED, IN TIME, WILL EARN PERHAPS HALF THAT TOTAL. ALSO UNIQUE IS TOURIST POTENTIAL. EGYPT IS PACKED WITH HISTORIC PHAROANIC, PTOLEMAIC AND ISLAMIC MONUMENTS; OTHER TOURISTIC ATTRACTIONS ARE PRESENT, AS WELL. MAIN CONSTRAINT ON EARNINGS IS INADEQUATE INFRASTRUCTURE, NAMELY LACK OF FIRST CLASS HOTEL ACCOMMODATIONS. CURRENT NET REVENUE LEVEL FROM THIS SOURCE IS ABOUT \$100 MILLION ANNUALLY.

7. PROBLEMS RELATED TO INFRASTRUCTURE PERVERSE OTHER AREAS OF ECONOMY. REASONABLY UP-TO-DATE QUANTIFICATION OF EXISTING FACILITIES CAN BE FOUND IN IBRD REPORT NO. 491/A-EGT

(SEPTEMBER 1974). PRECISE NUMBER OF MILES OF ROADWAYS AND TELEPHONE CONNECTIONS IS LESS PERTINENT IN MANY INSTANCES TO ECONOMIC QUESTIONS, HOWEVER, THAN QUALITY OR OPERATIOJNAL EFFICIENCY OF ONCE-ADEQUATE PLANT AFTER MORE THAN DECADE OF GROSS NEGLECT. NEEDS ARE ACROSS THE BOARD IN HOUSING, TRANSPORT, COMMUNICATIONS, PUBLIC UTILITIES AND, IF INDUSTRIALIZATION PLANS ARE REALIZED, EVEN ELECTRIC POWER, DESPITE LARGE DESIGN CAPACITY OF ASWAN HIGH DAM. ONLY A

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VISIST TO COUNTRY CAN GIVE OUTSIDE OBSERVER FULL FLAVOR OF OVERCROWDED URBAN SCENE, JAMPACKED CAIRO BUSSES, NON-FUNCTIONING TELEPHONES, SEEMINGLY CAPRICIOUS WATER AND LIGHT SYSTEM, AND SHEER DANGER OF MAJOR ROADWAYS.

8. A FINAL WORD ON NATION'S EARNING CAPACITY IN CONTEXT OF OVERALL ECONOMIC SETTING: FOR AT LEAST 30 YEARS EGYPT HAS RUN SUBSTANTIAL DEFICIT IN ITS TRADE ACCOUNT, OFFSET BY SERVICES AND CAPITAL TRANSACTIONS. (IN 1975, TRADE DEFICIT WAS ABOUT \$2,500 MILLION.) HISTORICALLY, MAJOR DEFICIT WAS ABOUT \$2,500 MILLION.) HISTORICALLY, MAJOR EXPORTS HAVE BEEN COTTON, COTTON YARN, TEXTILES, RICE; IMPORTS HAVE COVERED BROAD SPECTRUM OF ITEMS, WITH INTERMEDIATE GOODS MOST IMPORTANT BY VALUE. THIS RELIANCE ON NON-MERCHANDISE ACCOUNT BOP RECEIPTS HAS CONTINUED SINCE 1973 WAR, WITH ADDED COMPLICATION OF GREATLY INCREASED IMPORT BILL DURING 1974-76 BUT ONLY NARGINAL RISE IN EXPORTS. IMPORTS ARE UP BECAUSE OF POLICY DECISIONS IN DIRECTION OF LIBERALIZING ECONOMY, CAPITAL-INTENSIVE (AND HENCE FOREIGN EXCHANGE INTENSIVE) NATURE OF DEVELOPMENT EFFORT, PRESSING NEED FOR REPLACEMENT PARTS AND INDUSTRIAL MATERIALS, AND RISE IN WORLD PRICES. EARNINGS ON OTHER HAND ARE INHIBITIED BY RELATIVE PRICE INELASTICITY OF DEMAND FOR EGYPTIAN EXPORTS AND BY PRODUCTION CONSTRAINTS. RESULTS HAVE BEEN SEVERE ACCENTUATION OF BOP PROBLEM AND REQUIREMENT FOR HEAVY INFUSIONS OF FOREIGN CAPITAL IN FORM OF CASH AID AND LOANS. NON-MILITARY DEBT SERVICE BURDEN, INCLUDING IMPORTANTLY LARGE-SCALE BANK CREDIT FACILITIES WITH SHORT MATURITIES, HAS MOUNTED TO ALARMING PROPORTIONS (SEE CAIRO 16960) AND IN 1976 OCCASIONED LENGTHY ARREARS IN PAYMENTS.

9. EGYPT THUS IN DEVELOPMENT TERMS IS, IN EFFECT, A TINY AGRICULTURAL NATION WITH SERIOUS POPULATION PRESSURES, LIMITED NATURAL RESOURCES, SMALL INDUSTRIAL BASE AND INADEQUATE INFRASTRUCTURE. COUNTRY IS SADDLED WITH

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LARGE EXTERNAL DEBT WHICH IT IS UNABLE TO MEET THROUGH EXPORT EARNINGS (REPAYMENTS SCHEDULED FOR 1977 TOTAL MORE THAN ONE-HALF OF PROBABLE EXPORT EARNINGS). ON PLUS SIDE ARE PROSPECTS FOR OIL REVENUES, INCOME FROM SERVICE SECTORS AND RESERVOIR OF EDUCATED CITIZENRY. EGYPT IS NOT BASKET CASE AMONG LDC'S. NOR, HOWEVER, IS IT ANYWHERE NEAR POINT OF MAKING ITS WAY UNASSISTED IN INTERNATIONAL ECONOMIC SYSTEM, MUCH LESS ENGENDERING SELF-SUSTAINED REAL GROWTH AND IMPROVED LIVING CONDITIONS FOR MASS OF POPULACE.

10. IN THIS CONFINED FRAMEWORK OF STRICTLY LIMITED RESOURCES, EGYPT IS ATTEMPTING TO (A) HOLD OPEN ECONOMY TO HIGHER CONSUMPTION

LEVELS, (B) PUT TOGETHER NEW DEVELOPMENTAL PROJECT ACTIVITIES, AND (D) MAINTAIN EXPENSIVE MILITARY ESTABLISHMENT -- ALL MORE OR LESS AT SAME TIME AND EACH VERY COSTLY. GIVEN RESOURCE AVAILABILITIES, OBVIOUS AND IMMEDIATE NEEDS ON PART OF EGYPTIAN GOVERNMENT WOULD SEEM TO BE ORDERING PRIORITIES AMONG AND WITHIN THOSE REQUIREMENTS, PLUS TAKING EFFECTIVE ACTION TO BEGIN CURBING RATE OF POPULATION RISE. UNTIL SUCH HARD QUESTIONS ARE ADDRESSED, PROSPECTS ARE NOT ENCOURAGING FOR ANY APPRECIABLE PROGRESS IN DEVELOPMENT OF ECONOMY OVER NEXT FEW YEARS, NOTWITHSTANDING POSITIVE ELEMENTS IDENTIFIABLE ON ECONOMIC SCENE.

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